

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EAST CLARK	)	CASE NO.
COUNTY WATER DISTRICT FOR AN	)	2021-00318
ALTERNATIVE RATE ADJUSTMENT	)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of October 27, 2021, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's July 22, 2021 Order, East Clark County Water District (East Clark District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs East Clark District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.



Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED FEB 11 2022

cc: Parties of Record

---

<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

STAFF REPORT  
ON  
EAST CLARK COUNTY WATER DISTRICT  
CASE NO. 2021-00318

East Clark County Water District (East Clark District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 2,563 residential customers and 16 commercial customers that reside in Clark County, Kentucky.<sup>1</sup> As part of the final Order of Case Number 2020-00236, East Clark District was ordered to file for a general adjustment to rates or alternative rate filing within one year of the date of the Order, August 13, 2020.<sup>2</sup> On August 17, 2021, East Clark District tendered an application, pursuant to 807 KAR 5:076, requesting to adjust its water service rates. The Commission notified East Clark District by letter dated September 23, 2021, that its application was rejected for failure to satisfy the minimum filing requirements set forth in certain Commission regulations. East Clark District subsequently cured the filing deficiencies, and its application was deemed filed as of September 29, 2021.

The Commission notes that in its 2020 Annual Report, East Clark District reported a water loss of 16.34 percent.<sup>3</sup> Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water

---

<sup>1</sup> *Annual Report of East Clark County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report) at 12 and 49.

<sup>2</sup> Case No. 2020-00236 *Electronic Purchased Water Adjustment Filing of East Clark County Water District* (Ky. PSC Aug. 13, 2020).

<sup>3</sup> Annual Report at 57.

produced and purchased, excluding water consumed by a utility in its own operations. At a 16.34 percent water loss, the annual cost to East Clark District is \$5,167,<sup>4</sup> while the total cost of water loss is \$62,907.<sup>5</sup>

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>6</sup> East Clark District used the calendar year ended December 31, 2020, as the basis for its application. Using its pro forma test-year operations, East Clark District determined that a revenue increase of \$108,515, or 7.37 percent, over test-year normalized revenues of \$1,437,002 was warranted.<sup>7</sup> The rates requested by East Clark District would increase the monthly bill of a typical customer using 4,000 gallons per month by \$3.54 from \$48.10 to \$51.64, or approximately 7.36 percent.<sup>8</sup>

4

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 353,793	\$ 31,141	\$ 384,934
Multiplied by: Water Loss in Excess of 15 Percent	1.34%	1.34%	1.34%
Excess Cost	\$ 4,749	\$ 418	\$ 5,167

5

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 353,793	\$ 31,141	\$ 384,934
Multiplied by: Total Water Loss	16.34%	16.34%	16.34%
Excess Cost	\$ 57,818	\$ 5,089	\$ 62,907

<sup>6</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

<sup>7</sup> Application, Attachment No. 4, Revenue Requirements Calculation.

<sup>8</sup> *Id.*, Attachment No. 1, Customer Notice.

Operating Expenses	\$ 1,536,009
Add: Average Annual Debt Principal and Interest	103,175
Additional Working Capital	<u>20,635</u>
Overall Revenue Requirement	1,659,819
Less: Other Operating Revenue	(36,203)
Interest Income	(23,289)
Revenues from Contract Work	<u>(18,810)</u>
Revenue Requirement - Water Rates	1,581,517
Less: Normalized Revenue from Service	<u>(1,473,002)</u>
Required Revenue Increase	<u>\$ 108,515</u>
Percentage Increase	<u>7.37%</u>

To determine the reasonableness of the rates requested by East Clark District, Staff performed a limited financial review of East Clark District’s test-year operations. The scope of Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>9</sup> changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Staff’s findings are summarized in this report. Travis Leach reviewed the calculation of East Clark District’s Overall Revenue Requirement. Elizabeth Stefanski reviewed East Clark District’s reported revenues and rate design.

---

<sup>9</sup> Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be “adjusted for known and measurable changes.” See also Case No. 2001-00211, *The Application of Hardin County Utilities District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Utilities District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

## SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Staff found that East Clark District's required revenue from rates is \$1,553,609 to meet the Overall Revenue Requirement of \$1,628,128, and that an \$80,503 revenue increase, or 5.46 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. In its application, East Clark District proposed to increase all of its monthly retail water service rates, except for Bulk Sales, evenly across the board by approximately 7.36 percent. East Clark District proposed to increase the Bulk Sales rate by 40.3 percent.<sup>10</sup> East Clark District explained that the original Bulk Sales rate was established some years ago, at the same rate as the supplier loading station rate, as East Clark District's loading stations were adjacent to the purchase point.<sup>11</sup> The original loading stations were eliminated by East Clark District, and two newer loading stations were opened at the outer limits of the distribution system.<sup>12</sup> Due to this change in loading stations, East Clark District proposed to increase the Bulk Sales rate to be equal to the lowest rate block in the retail rate schedule.<sup>13</sup> East Clark District has not performed a cost of service study (COSS). East Clark District stated that it did not consider filing a COSS with the current rate application as there were no material

---

<sup>10</sup> Application, Attachment No. 1, Customer Notice.

<sup>11</sup> East Clark District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Dec. 10, 2021), Item 2.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

changes in its system and that East Clark District would consider preparing a new COSS if material changes in customer usage patterns were to occur.<sup>14</sup>

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Staff followed the method proposed by East Clark District and, based upon setting the Bulk Sales rate to be equal to the lowest rate block in the retail rate schedule, allocated the balance of the \$80,503 revenue increase across the board to East Clark District's remaining monthly water service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Staff, and will produce sufficient revenues from water sales to recover the \$1,553,609, Revenue Required from Rates, an approximate 5.46 percent increase. These rates will increase a typical residential customer's monthly water bill for the East Clark District's customers from \$48.10 to \$50.68, an increase of \$2.58, or approximately 5.36 percent.<sup>15</sup>

---

<sup>14</sup> East Clark District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Nov. 12, 2021), Item 4.

<sup>15</sup> The typical customer uses approximately 4,000 gallons per month. Note that due to the larger increase placed upon bulk sales, the impact on the average residential customer is less than the overall increase.

3. Nonrecurring Charges. Following the Commission’s recent decisions,<sup>16</sup> Staff has reviewed East Clark District’s nonrecurring charges. The Commission found that as district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. East Clark District provided cost justification information for the Nonrecurring Charges that are listed in its tariff as approved in Case No. 2008-00241.<sup>17</sup> Upon request, East Clark updated these cost justifications to reflect current costs.<sup>18</sup> Staff reviewed the cost justification information provided by East Clark District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs from those charges that occur during normal business hours as well as after-hours Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Charge</u>
Connection Turn-On	\$15.00
Field Collection	15.00
Meter Re-Read	15.00
Service Call	15.00
Connection Turn-On – After Hours	170.00
Reconnection – After Hours	170.00
Meter Re-Read – After Hours	170.00
Service Call – After Hours	170.00
Meter Test	15.00
Reconnection Charge	15.00
Returned Check Charge	6.00

---

<sup>16</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020); Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020); and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>17</sup> Case No. 2008-00241, *Application of East Clark Water District to Increase Certain Nonrecurring Charges* (Ky. PSC Oct. 14, 2008) and East Clark District’s Response to Staff’s First Request, Item 7.

<sup>18</sup> East Clark District’s Response to Commission Staff’s Third Request for Information (Staff’s Third Request) (filed Jan 31, 2022) Item 2.a.

The adjustments to the Nonrecurring Charges results in a decrease to Other Operating Revenue of \$3,908, as shown below.<sup>19</sup>

	Occurrences	Current Charge	Total	Revised Charge	Adjustment	Pro Forma
Connection Turn-On	187	\$30	\$5,610	\$15	(\$2,805)	\$2,805
Field Collection	13	\$30	\$390	\$15	(\$195)	\$195
Meter Re-Read	0	\$30	-	\$15	-	-
Service Call	0	\$30	-	\$15	-	-
Connection Turn-On – After Hours	0	\$95	-	\$170	-	-
Reconnection - After Hours	1	\$100	\$100	\$170	\$70	\$170
Meter Re-Read - After Hours	0	\$95	-	\$170	-	-
Service Call - After Hours	0	\$95	-	\$170	-	-
Meter Test	0	\$55	-	\$15	-	-
Reconnection Charge	14	\$55	\$770	\$15	(\$560)	\$210
Returned Check Charge <sup>20</sup>	22	\$25	\$550	\$6	(\$481)	\$132
TOTAL			\$7,420		(\$3,908)	\$3,512

East Clark District provided the Average Meter Connection Expense Cost Justification form for a 5/8- X 3/4-Inch meter.<sup>21</sup> East Clark District’s Cost Justification Form, revised for current costs, indicates that it should increase its meter connection fee by \$793, from \$907 to \$1,700, to reflect the current cost to install a meter. Staff recommends the proposed increase as it is reasonable and recovers the increased cost to install a 5/8- X 3/4-Inch meter.

<sup>19</sup> East Clark District’s Response to Staff’s First Request, Item 6.

<sup>20</sup> Revised per East Clark District’s Response to Staff’s Third Request, Item 3.c.

<sup>21</sup> East Clark District’s Response to Staff’s Third Request, Item 2.a.

PRO FORMA OPERATING STATEMENT

East Clark District's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Staff, appears below.

	Test Year	Adjustment	Reference	Pro Forma
<b>Operating Revenues</b>				
Retail Sales of Water	\$ 1,464,409	\$ 18,221	(A)	
		(14,257)	(B)	\$ 1,468,373
Bulk Sales		4,733	(B)	4,733
<b>Other Water Revenues</b>				
Forfeited Discounts		5,713	(B)	
		22,896	(C)	28,609
Misc Service Revenues		3,380	(B)	3,380
Other Water Revenues		431	(B)	431
<b>Total Operating Revenues</b>	<b>1,464,409</b>	<b>41,117</b>		<b>1,505,526</b>
<b>Operating Expenses</b>				
<b>Operation and Maintenance Expenses</b>				
Salaries and Wages - Employees	301,267	31,258	(D)	332,525
Salaries and Wages - Officers	29,000	1,000	(E)	30,000
Employee Pensions and Benefits	301,417	(127,812)	(F)	173,605
Purchased Water	364,069	(10,276)	(G)	
		(4,749)	(H)	349,044
Purchased Power	31,141	(418)	(H)	30,723
Materials and Supplies	60,996			60,996
Contractual Services	103,471			103,471
Rental of Equipment	165			165
Transportation Expenses	18,104			18,104
Insurance - Other	32,053			32,053
Bad Debt	4,526			4,526
Miscellaneous Expenses	19,222			19,222
<b>Total Operation and Maintenance Expenses</b>	<b>1,265,431</b>	<b>(110,997)</b>		<b>1,154,434</b>
Depreciation Expense	360,062	(35,617)	(I)	324,445
Taxes Other Than Income	25,374	64	(D)	25,438
<b>Total Operating Expenses</b>	<b>1,650,867</b>	<b>(146,550)</b>		<b>1,504,317</b>
<b>Utility Operating Income(Loss)</b>	<b>\$ (186,458)</b>	<b>\$ 187,667</b>		<b>\$ 1,209</b>

(A) Billing Analysis Adjustment. In its application, East Clark District made an adjustment of \$21,900<sup>22</sup> to Metered Sales. This adjustment is based upon the billing analysis listing the water usage and water sales revenue for the 12-month test year with the total metered water sales revenue reported as \$1,464,409.<sup>23</sup> This adjustment was applied as East Clark District increased its service rates during the test year through a purchase water adjustment (PWA).<sup>24</sup> East Clark District provided usage data, which Staff used to calculate a normalized revenue amount based on the statistics compiled in the table below, which includes the PWA increase for a normalized revenue of \$1,468,373. Therefore, Staff increased retail metered sales by \$18,221.

<b>Meter Size</b>	<b>Bills</b>	<b>Gallons Sold</b>	<b>Revenue</b>
5/8 inch	30292	110,843,600	\$ 1,435,790
1 inch	257	2,231,600	28,034
1.5 inch	12	120,600	1,605
2 inch	14	10,300	2,944
3 inch	0	0	0.00
4 inch	0	0	0.00
Normalized Revenue			\$ 1,468,373

(B) Nonrecurring Charges. In its application, East Clark District made several adjustments to certain Other Operating Revenues and Miscellaneous Service Revenues to their proper categories.<sup>25</sup> East Clark District reduced Total Retail Metered Sales by \$17,937 to reflect the following: (1) miscategorized Bulk Sales in the amount of \$4,630;

---

<sup>22</sup> Application, Attachment No. 4, Schedule of Adjusted Operations.

<sup>23</sup> Annual Report at 49.

<sup>24</sup> Case No. 2020-00236, *Electronic Purchased Water Adjustment Filing of East Clark County Water District* (Ky. PSC Aug. 13, 2020).

<sup>25</sup> Application, Attachment No. 4, Schedule of Adjusted Operations.

(2) Forfeited Discounts in the amount of \$5,713; (3) Miscellaneous Service Revenue in the amount of \$6,745; and (4) Other Water Revenue in the amount of \$849.

Staff agrees that the proposed adjustment Forfeited Discounts<sup>26</sup> is measurable. Staff also adjusted Bulk Sales to \$4,733 to reflect the PWA.<sup>27</sup> As discussed above, Staff adjusted certain nonrecurring charges using the Cost Justification Sheets updated for current costs, which impacts Miscellaneous Service and Other Water Revenues. Based upon these revisions, Staff calculated that the pro forma should be \$3,380 and \$431 for Miscellaneous Service Revenues and Other Water Revenue, respectively. The net result is a decrease to total retail sales of \$14,257.<sup>28</sup>

Miscellaneous Service Revenues <sup>29</sup>			
	As Filed	Adjustment	Pro Forma
Connection Turn-On	\$5,610	(\$2,805)	\$2,805
Field Collection	\$390	(\$195)	\$195
Reconnection - After Hours	\$100	\$70	\$170
Reconnection Charge	\$770	(\$560)	\$210
<b>TOTAL</b>	<b>\$6,870</b>	<b>(\$3,490)</b>	<b>\$3,380</b>

  

Other Water Revenues <sup>30</sup>			
	As Filed	Adjustment	Pro Forma
Over/Short	(\$163)	-	(\$163)
Returned Check	\$550	(\$418)	\$132
Miscellaneous	\$462	-	\$462
<b>TOTAL</b>	<b>\$849</b>	<b>(\$418)</b>	<b>\$431</b>

<sup>26</sup> East Clark District's Response to Staff's First Request, Item 6.

<sup>27</sup> East Clark District's Response to Staff's Second Request for Information, Item 3. 731,600 gallons \* \$6.47/1000 gallons = \$4730.

<sup>28</sup> Bulk Sales \$4733 + Forfeited Discount \$5713 + Miscellaneous Service Revenues \$3380 + Other Water Revenues \$431 = \$14,257.

<sup>29</sup> East Clark District's Response to Staff's First Request, Item 6, and East Clark District's Response to Staff's Second Request, Item 1.

<sup>30</sup> East Clark District's Response to Staff's Second Request, Item 1 and East Clark District's Response to Staff's Third Request, Item 3.

(C) Forfeited Discounts. In its application, East Clark District proposed to increase Revenues by \$22,896 to account for the moratorium regarding the collection of late payment fees due to the COVID-19 pandemic.<sup>31</sup> For this adjustment, East Clark District normalized the 2020 Forfeited Discount Revenues to the 2019 level. Staff agrees with the proposed adjustment as 2020 is not a reasonable proxy.

(D) Salaries and Wages – Employees & FICA. In the test-year, East Clark District included \$301,267 of Salaries and Wages - Employees Expense. In its application, East Clark District proposed an adjustment increasing test-year Salaries and Wages – Employees Expense by \$45,271 citing an increase in wages since the test year as well as the replacement of an existing employee and addition of a new employee. Staff agrees as the proposed adjustment is known and measurable, but found that an increase of \$31,258 to be appropriate, as shown below.

<u>Employee Title</u>	<u>Pro Forma Hours Worked</u>	<u>Pro Forma Overtime Hours</u>	<u>Pro Form Hourly Rate</u>	<u>Pro Forma Wages</u>
District Manager	Salary	N/A	\$ 86,357	\$ 86,357
Secretary	2080	0.5	15.05	31,315
Operator	2080	153	22.29	51,479
Operator	2080	160	21.50	49,880
Secretary	2080	0	23.72	49,338
Part-Time Meter Tester	99.75	0	13.00	1,297
Operator Recruit	2080	110	14.00	31,430
Operator Recruit	2080	110	14.00	31,430
Pro Forma Salaries and Wages				332,525
Less: Test Year Expense				<u>301,267</u>
Increase(Decrease) to Test Year				<u><u>\$ 31,258</u></u>

<sup>31</sup> Application, Attachment No. 4, Schedule of Adjusted Operations.

As a result of Staff’s increase to Salaries and Wages – Employees, Staff has made an adjustment to reduce FICA Tax Expenses to reflect the reduced payroll tax costs, as shown below.

Pro Forma Salaries and Wages	\$	332,525
Multiply by: FICA Rate		<u>7.65%</u>
Pro Forma FICA Taxes		25,438
Less: Test Year Payroll Taxes		<u>(25,374)</u>
Adjustment	\$	<u><u>64</u></u>

(E) Salaries and Wages – Officers. In the test-year, East Clark District included \$29,000 of Salaries and Wages - Officer Expense. In its application, East Clark District proposed an adjustment increasing test-year Salaries and Wages – Officer Expense by \$1,000 citing a period during the test year where there was a vacancy on the district’s board of commissioners. Staff agrees as the proposed adjustment is known and measurable and has included it in pro forma operations.

(F) Employee Pensions and Benefits. East Clark District included \$301,417 in its test-year Employee Benefits Expense related to insurance and retirement benefits. As part of its employee compensation, East Clark District pays 100 percent of its employee’s and family health insurance premiums as well employee life, vision, and dental insurance premiums.

Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employer-sponsored healthcare paid by some utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits. The Commission continues to place greater emphasis on evaluating employees’ total compensation packages, including both salary and

benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate.<sup>32</sup>

As East Clark District’s employees currently pay 0 percent of their health insurance premiums, Staff has calculated the total pro forma allowable premiums, shown below.

	District Contribution	BLS Contribution Rate	Reduction Adjustment	Pro Forma Contributions
Health (Employee)	\$ 3,231	22%	\$ (711)	\$ 2,520
Health (Family)	6,221	34%	(2,115)	\$ 4,106
Life	279	0%	-	\$ 279
Dental	238	60%	(143)	\$ 95
Vision	28	0%	-	\$ 28
Monthly Pro Forma Total				\$ 7,028
Multiply by: 12 Months				<u>12</u>
Pro Forma Allowable Premiums				<u>\$ 84,339</u>

In addition to health and life insurance, East Clark District employees participate in Kentucky’s County Employee Retirement System (CERS). As part of CERS, East Clark District makes contributions to employee’s retirement account based on annual salaries and wages. Using the pro forma Salaries and Wages – Employees Expense discussed above, Staff normalized annual contributions using the CERS rate effective July 1, 2021 of 26.95 as shown below.

Pro Forma Applicable Salaries and Wages	\$ 331,229
Multiply By: Pro Forma CERS Contribution Rate	<u>26.95%</u>
Pro Forma CERS Contributions	<u>\$ 89,266</u>

<sup>32</sup> Case 2020-00167, *Electronic Application of Ohio County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Dec. 2, 2020). Case 2020-00296, *Electronic Application of Allen County Utilities District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

Taking into account both adjustments discussed above, Staff finds that pro forma Employee Benefits Expense should be decreased from \$301,417 by \$127,812 to a Pro Forma total of \$173,605 as shown below.

Pro Forma Insurance Benefits	\$ 84,339
Pro Forma CERS Contributions	<u>89,266</u>
Pro Forma Pension and Benefits Expense	173,605
Less: Test Year Pensions and Benefits	<u>(301,417)</u>
Adjustment	<u><u>(127,812)</u></u>

Staff notes that in its application, East Clark District proposed a number of adjustments to Test-year Pensions and Benefits expense, including two adjustments to remove pension liability expenses related to GASB 68 and 75. The method used by Staff above adjusts expenses to pro forma allowable levels based on actual expenditures, and therefore separate adjustments for reporting liabilities are not necessary.

(G) Purchased Water. In its application, East Clark District included \$364,069 in Purchased Water Expense and proposed an adjustment to increase Purchased Water Expense by \$2,300 citing an increase in one of the district’s suppliers wholesale purchase rates and the resulting PWA. Staff agrees as the proposed adjustment is known and measurable. However, after annualizing Purchased Water Expense based on test-year gallons purchased and current wholesale prices, Staff calculated the adjustment for this PWA increases Purchased Water Expense by \$10,276, as shown below.

Winchester Municipal Wholesale Rate/100 cf	\$	2.04
Divide By: Conversion to gal		748
Winchester Municipal Wholesale Rate/gal	\$	0.002727
Multiply By: Test Year Gallons		137,031,473
Winchester Municipal Pro Forma Purchased Water Expense	\$	<u>373,722</u>
Kentucky American Wholesale Rate/1000 gal	\$	4.236
Divide By: Conversion to gal		1,000
Winchester Municipal Wholesale Rate/gal	\$	0.004236
Multiply By: Test Year Gallons		147,057
Kentucky American Pro Forma Purchased Water Expense	\$	<u>623</u>
Total Pro Forma Purchased Water Expense		374,345
Less: Test Year Purchased Water Expense		<u>(364,069)</u>
Pro Forma Adjustment	\$	<u>10,276</u>

(H) Water Loss. In its application, East Clark District proposed adjustments to Purchased Water and Purchased Power Expense of \$4,887 and \$418, respectively, to account for the district's unaccounted for water loss in excess of 15 percent, 1.34 percent. Staff agrees that such adjustments are appropriate, but due to adjustments to purchased water, discussed above, Staff calculated that the appropriate reduction to Purchased Water Expense is \$4,749, as shown below.

	Purchased Water	Purchased Power	Total
2020 Pro Forma Expenses	\$ 353,793	\$ 31,141	\$ 384,934
Multiplied by: Water Loss in Excess of 15 Percent	1.34%	1.34%	1.34%
Excess Cost	<u>\$ 4,749</u>	<u>\$ 418</u>	<u>\$ 5,167</u>

(I) Depreciation Expense. In its application, East Clark District included \$360,062 in Depreciation Expense and proposed to reduce test-year Depreciation

Expense by \$35,617 citing Commission precedent of evaluating the reasonableness of the depreciation practices of small water utilities using the National Association of Regulatory Utility Commissioners' (NARUC) report titled Depreciation Practices for Small Utilities (NARUC Study) published in 1979. When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant.

Upon examination, Staff agrees that the adjustment proposed by East Clark District is known and measurable and accurately reflects adjusting the district's assets' useful life to the midpoint of the life's found in the NARUC Study, and has included it in pro forma operations.

#### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of Utilities Districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>33</sup> (3) the average annual principal and interest payments on all long-term debts, and (4) working capital that is in addition to depreciation expense.

---

<sup>33</sup> The Kentucky Supreme Court has held that the Commission must permit a Utilities District to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a Utilities District's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the Utilities District's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

	East Clark District	Staff
Operating Expenses	\$ 1,536,009	\$ 1,504,317
Add: Average Annual Debt Principal and Interest	103,175	103,176
Additional Working Capital	<u>20,635</u>	<u>20,635</u>
Overall Revenue Requirement	1,659,819	1,628,128
Less: Other Operating Revenue	(36,203)	(32,420)
Interest Income	(23,289)	(23,289)
Revenues from Contract Work	<u>(18,810)</u>	<u>(18,810)</u>
Revenue Requirement - Water Rates	1,581,517	1,553,609
Less: Normalized Revenue from Service	<u>(1,473,002)</u>	<u>(1,473,106)</u>
Required Revenue Increase	<u>\$ 108,515</u>	<u>\$ 80,503</u>
Percentage Increase	<u>7.37%</u>	<u>5.46%</u>

1. Average Annual Principal and Interest Payments. At the time of Staff's review, East Clark District had three outstanding Kentucky Rural Water Finance Corporation debt obligations. In its application, East Clark District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026.<sup>34</sup> Staff agrees with the methodology East Clark District proposes. As shown in below, Staff calculated an Average Principal and Interest Payment of \$103,176.

Year	Principal	Interest	Fees	Total
2022	\$ 80,000	\$ 29,960	\$ 600	\$ 110,560
2023	80,000	26,872	600	107,472
2024	85,000	23,659	600	109,259
2025	75,000	20,460	350	95,810
2026	75,000	17,428	350	<u>92,778</u>
5-Year Total				515,879
Divide By: 5 Years				<u>5</u>
Average Debt Service Coverage				<u>\$ 103,176</u>

<sup>34</sup> Application, Attachment No. 4, Revenue Requirements Calculation.

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, East Clark District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt with the KIA at the time of its application.

KIA requires that East Clark District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice, \$20,635 is included in the revenue requirement.

Annual Debt Service Payments		103,176
Multitplied by:	20%	<u>1.20</u>
Required Net Revenues		123,811
Less: Annual Debt Service		<u>(103,176)</u>
Allowance for Working Capital		<u><u>\$ 20,635</u></u>

-

Signatures

\_\_\_\_\_/s/ Travis Leach\_\_\_\_\_

Prepared by: Travis Leach  
Revenue Requirements Branch  
Division of Financial Analysis

\_\_\_\_\_/s/Elizabeth Stefanski\_\_\_\_\_

Prepared by: Elizabeth Stefanski  
Rate Design Branch  
Division of Financial Analysis

APPENDIX

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00318 DATED FEB 11 2022

The following rates and charges are prescribed for the customers in the area served by East Clark Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$	27.70	Minimum Bill
Next	8,000 Gallons		0.01149	Per Gallon
Next	40,000 Gallons		0.01020	Per Gallon
Over	50,000 Gallons		0.00891	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	62.17	Minimum Bill
Next	5,000 Gallons		0.01149	Per Gallon
Next	40,000 Gallons		0.01020	Per Gallon
Over	50,000 Gallons		0.00891	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$	119.59	Minimum Bill
Next	40,000 Gallons		0.01020	Per Gallon
Over	50,000 Gallons		0.00891	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$	221.59	Minimum Bill
Next	30,000 Gallons		0.01020	Per Gallon
Over	50,000 Gallons		0.00891	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$	323.59	Minimum Bill
Next	20,000 Gallons		0.01020	Per Gallon
Over	50,000 Gallons		0.00891	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$	527.59	Minimum Bill
Over	50,000 Gallons		0.00891	Per Gallon

Bulk Sales

\$	0.00891	Per Gallon
----	---------	------------

Nonrecurring Charges

5/8- X 3/4-Inch Meter Connection Charge	\$1,700.00
Connection/Turn-on Charge	15.00
Turn On After Hours	170.00
Field Collection	15.00
Meter Reread	15.00
Meter Reread After Hours	170.00
Meter Test	15.00
Reconnect Charge	15.00
Reconnection After Hours	170.00
Service Call / Investigation	15.00
Service Call / After Hours	170.00
Returned Check	6.00

\*Alan Vilines  
Kentucky Rural Water Association  
Post Office Box 1424  
1151 Old Porter Pike  
Bowling Green, KENTUCKY 42102-1424

\*William Ballard  
General Manager  
East Clark County Water District  
118 Hopkins Lane  
P. O. Box 112  
Winchester, KY 40391

\*East Clark County Water District  
118 Hopkins Lane  
P. O. Box 112  
Winchester, KY 40391